



Iran's flag bearer, Ali Mazaheri, leads his team at the London 2012 Olympics opening

Market Overview _____ 2

The downward movement of the Tehran Stock Exchange (TSE) continued at a slower pace in comparison to last month. After the widespread stock price declines of the past three months, which pushed the market average P/E to below 5, investors began to buy back some over-sold stocks. This helped the TSE market to stabilize to some extent. Two major IPO's took place that absorbed over \$375 million of liquidity from the market.

Country Overview _____ 5

Iran's involvement in the Syrian conflict and Iran's achievements at the 2012 Summer Olympics will be discussed in this section.

Economy _____ 8

Iran's launch of its first self-constructed oil tanker, it becoming the world's 15th largest steel producer, its imports and exports in the first three months of this Iranian calendar year, a 65 million euro loan to the Iranian mining sector, and an overview of Iranian banking sector will be covered in this section.

Turquoise Iran Equity Investments _____ 11

This section provides data and charts on the performance of Turquoise Iran Equity Investments Class A for the month of July.

In July, the downward movement of stock prices on the Tehran Stock Exchange (TSE) continued, although at a slower pace in comparison to June. Following the widespread stock sell-offs of June, which led to a 6% decline in the main index, officials from the Ministry of Economy and the TSE delivered several speeches in order to calm the market and restore investor confidence. Simultaneously, several quasi-governmental institutional investors began to support the market by purchasing considerable volumes of shares. Consequently, the market reached a relative equilibrium and investors began to buy back some of the stocks that were thought to be over-sold throughout July. Additionally, the release of the first quarter earnings results provided a clearer picture of the state of differing industries since the beginning of the Iranian calendar year (20th March). Companies focused on the local market benefited the most from the recent devaluation of the Rial and tighter sanctions on the country. In contrast, sectors that are heavily dependent on the exports of their products or on imports for their raw material were strongly hit.

As at the end of July, the 2012 year to date performance of the TSE stood at 0.7%, which was mainly due to the 10% average dividend payout and its effect on the performance index. Thus, one can conclude a 10% drop in the average stock price since the beginning of 2012. The price slump was such that stock sell-offs across many sectors of the market were not easily justifiable. The weighted average price to earnings ratio (P/E) of the market slid down to just below 5 in July, after peaking at 9 in March 2011. A closer look at the historical P/E ratio of the market will show that the market experienced its lowest P/E of 3.8 in March 2009. Currently, due to the rise in the profitability of key exporting companies (due to the devaluation of Rial), this figure is expected to continue its short-term downtrend and decline to 4 in the near future. This indicates investors' aversion to risk in the coming months.

Some of the key sectors and events of the market will be examined below:

Mining and Metals

An overview of different industries in the first quarter of the Iranian calendar year indicates that companies focused on the local market were greatest beneficiaries of the current situation. For example, steel manufacturing companies such as Mobarakeh, Khorasan and Khouzestan reported an increase of approximately 60% in their profitability. This was mainly due to sales of their products in the domestic market at the unofficial exchange rate. In the mining sector, iron ore producers outperformed their forecasts in the first quarter of this year because their profits jumped by 50% in comparison to the same period last year. However, both sectors went through price corrections due to the influence of the bearish market sentiment. The base metals and mining sector indices decreased by 8.9% and 5.3% respectively. The average P/E of the mining sector fell to around 5.7, its lowest level over the past three years. Given the current sales trend in these sectors, their profitability forecasts are expected to face an upward adjustment of nearly 50% over the course of this year. This would further reduce their P/E ratios, making them attractive investment proposals from a fundamental perspective.

Pharmaceutical

The quarterly corporate reports indicate sharp profitability declines in companies with exposure to the exchange rate. The pharmaceutical sector was among the worst hit by the devaluation of the market rate of the Rial and tighter sanctions. The overall profitability of this sector has dropped by 30% on average in comparison to the same period last year. Most pharmaceutical companies are heavily dependent on imports for their raw materials and the lack of access to currency at the Central Bank's official rates has led to a significant increase in their production costs. This is while the sale prices of most drugs in Iran are tightly controlled by the government. Unsurprisingly, the industry's margins have come under significant pressure this year.

The sector index was down by 5% in July, bringing the value decline to 25% since the beginning of 2012. This is the worst performance of the pharmaceutical sector over the past decade.

Petrochemical

In the petrochemical sector, quarterly reports have somewhat reduced investor confidence in this sector. While this sector has benefited from the devalued Rial, the imposed sanctions and trade embargoes have hit the companies' sales. As a result, the largest Iranian methanol producers announced that they will be reducing their production capacity and sales. Quarterly earnings reports by Kharak Petrochemical (the Middle East's third largest methanol producer) and Zagros Petrochemical (the largest methanol producer in the world) revealed declines of 28% and 49% respectively, in terms of their production of methanol. However, both companies' earnings were in line with their forecasts, due to higher sales prices.

The petrochemical sector index lost 7.1% of its value in July. Based on the latest analysts' forecasts, the sector is now trading at a P/E of below 3. This is a reflection of the market's concern about the ability of petrochemical companies to export their products.

Banking

Share prices of most listed banks are now at their lowest level in terms of valuation. The average P/E of the banking sector has dropped to 4; this is the sectors' all-time lowest P/E. Interestingly, the first quarter earnings reports of most banks indicate robust profit growth, with an expectation for another 25% hike in earnings in the second quarter. Analysts reason that the disconnect between the fundamentals of the sector and the share price performance is mainly due to the overall market sentiment and investor concerns about adverse macro-economic conditions. However, the banking sector has historically recorded one of the highest dividend payout ratios (up to 75% of net profits). At the current valuation levels, analysts view the banking sector as a relatively low risk one and a suitable substitute for fixed income, the return of which currently lags the inflation rate.

Initial Public Offerings

On 4th of July, a 5% stake in Shiraz Refinery was

offered and successfully sold on the Iranian Over-The-Counter market, Farabourse, at a market capitalisation of \$213 million and a P/E ratio of 4.5, as part of the ongoing privatisation programme. Shiraz is a medium-sized refinery with a refining capacity of 80,000 barrels of petroleum per day. The offering attracted significant investor interest, such that the stock price finished the month 40% higher than the IPO value. On 9th of July, a 10% stake in Mellat insurance company (the fifth insurance company to be listed) was offered on the TSE. The IPO took place at a market capitalisation of \$162 million and a P/E ratio of 5.6. Mellat Insurance has forecasted net earnings of \$29 million for the current financial year. However, shares of this company lost 9% of their IPO value by the end of July.

Overall, the TSE All-Share index fell 2.3% in Rial terms in July. Total trade volumes for the month increased by \$260 million in comparison to the previous month and stood at \$1.05 billion.

Performance of TSE All-Share Index (July 2012)



Market Statistics

Average P/E	4.8
Trade Volume (\$ Billion)	1.1
Trade Value Monthly Change (%)	32
Market Cap (\$ Billion)	91

Top 5 Traded by Value

Rank	Company Name	Turnover Value (\$Million)	% of Total Turnover
1	Pasargad Bank	253	24
2	Saipa Automotive Manufacturing Co.	95	9
3	Mellat Insurance Co.	56	5
4	Oil Industry Investment Co.	50	5
5	Bandar Abbas Oil Refining Co.	37	3

Top 5 Companies by Market Cap

Rank	Company Name	Market Cap (\$Million)	% of Total MC
1	Telecommunications Co. of Iran	8,456	9
2	National Iranian Copper Industries Co.	5,282	6
3	Isfahan Mobarakeh Steel Co.	4,470	5
4	Pasargad Bank	3,222	4
5	Ghadir Investment Co.	3,183	4

All figures quoted in USD in this Newsletter are calculated based on the Central Bank of Iran's official USD/IRR exchange rate of 12260, as at 31 July 2012

Iran's involvement in Syria conflict

Iran and Syria have had a long standing relationship and are considered close allies. After the Islamic Revolution and during the Iran-Iraq war, Syria sided with Iran. This resulted in it distancing itself from a number of Arab countries such as Saudi Arabia.

The Islamic Republic and Syria have historically had common interests regarding opposition against Saddam Hussein and hostility towards the US and Israel. The defense ministers of the two countries signed an agreement in 2006 relating to military cooperation against Israel and the US; the details of the agreement were not disclosed. Iran has invested in Syria in projects such as the establishment of cement factories, power plants and construction sites. In 2007, President Ahmadinejad and President Assad met in Iran in order to form a coalition of resistance against the US and Israel.

Iran's involvement in the Syrian civil war has been the focus of media attention recently. The uprising began as demonstrations in March 2011 against the Baath party, who have been ruling Syria for more than four decades, coupled with the demand for the resignation of President Bashar Asad. In 2012, the demonstrations in Syria turned into a full blown civil war causing many of its citizens to flee to neighboring countries such as Turkey, Lebanon, Iraq and Jordan. Since the start of the conflict, Iran has been playing a significant role in aiding the Syrian government. General consensus seems to be that Iran's Supreme Leader, Ali Khamenei, and the Iranian government have been and remain in favor of the Syrian government. According to reports, the Iranian government provided the Syrian government with information and rebellion control methods as well as intelligence monitoring techniques. Aside from this support, Iran has also been reported as providing Syria with a great deal of financial support. According to reports, Iran has sent \$9 billion to Syrian government in order to help them deal with pressures arising from Western sanctions.

Iran has been faced with significant pressure from the international community in regards to its

relationship with Syria during this uprising. Reports have indicated that Iran has been shipping arms to Syrian government illegally. This has been suggested by the US in particular who claim to have detected Iranian intelligence units in Syria delivering weapons and aiding the government. US journalists claim that the Iranian government had provided the Syrian government with technology to monitor and control emails, cell phones and social media. Rumor has it that, Iran developed these abilities during the 2009 Presidential election while the country was faced with its own uprising. Iran's monitoring technology is said to be among the most sophisticated in the world. In 2012, Iran was accused of having members of its Revolutionary Guards in Damascus who were there, supposedly, to help form a militia within Syria to be able to fight for the regime. That being said, in August, the minister of foreign affairs, Mr. Salehi, issued a statement urging the Syrian government to answer the demands of their people. This was the first time that the Iranian government had officially issued a statement in support of the people.

Internationally, there have been concerns regarding the situation in Syria. Kofi Annan, the UN special envoy, travelled to both Syria and Iran in order to present possible policies for promoting peace in Syria. Kofi Annan visited Damascus in July where he met with President Assad and discussed the recent conflicts. The talks were described as constructive. Mr. Annan then traveled to Iran and Iraq in order to gain support for his peace plan for Syria.

Mr. Annan met with Iran's foreign minister, Mr. Salehi in order to seek Iran's cooperation and support for ending the crisis in Syria. Mr. Salehi had told reporters that Iran is willing to be part of the solution and will play a positive role to end the bloodshed. The US, however, has accused Iran of providing assistance to Damascus, and has indicated that this claim seems unlikely and that Iran will continue to act in support of the current Syrian regime. Mr. Anan then traveled to Baghdad to meet with Iraqi President, Nouri Maliki. Mr. Annan's visits, although constructive, did not manage to end the conflict as stipulated as part of his six-point peace initiative.

Mr. Annan's trip to Iran shows that he was eager to get the support of Iran in regards to any peace deal for Syria. He insisted that Iran's close ties with President Assad could be used positively in reaching common ground. The Iranian government has not shown any significant public sign that it is willing to abandon President Assad. The US has been strongly against Iran's involvement in any Syrian peace plan; it went as far as leaving Iran off the list of countries participating in a meeting designed to come up with a solution for the Syria conflict in Geneva last month. In that session, the participating nations agreed on a broad structure to promote democracy in Syria. They did not however agree on a mandate that Assad step down as President. Russia, China and Iran all have refused to make Assad's departure as a condition for any deal.

Currently, with increasing tensions in Syria, Iran's position seems to be becoming somewhat unclear. Syria is being more and more isolated internationally and that leaves Iran unsure. From one side, the government seems to be supportive of President Assad and from another side, it has been indicated that the Iranian government is in favor of peace promotion. At present, Iran remains steadfast in its support for the Syrian regime.

Iran at the 2012 Summer Olympics

Before delving into the details of Iran's participation in the 2012 London Olympics, we will give an overview of the events which led to the country's successful performance.

During the past year, there has been a great deal of controversy in Iran in regards to the involvement of the government in the country's various sports federations. A number of important sports federations such as those for football, shooting and boating were faced with significant disruption.

The conflict began when the government started changing the heads of these federations. This, according to policy makers, is against the rules. World federations began to threaten these national federations and their proposed presence in the

London Olympics. The most controversial issue related to the federation of shooting which was in danger of not being able to attend the Olympics. The complaint was mainly related to the change of the head of the federation by the government without holding a proper AGM. It was said that if the federation did not hold an AGM where the head could be chosen through voting without government interference, the shooting federation would be suspended and therefore would not be able to send athletes to the 2012 London Olympics. The president of Iran's Olympics committee stated that all efforts would be made with the ministry of sports in order to resolve these conflicts so that Iranian athletes could participate in the Olympics.

A similar situation took place with the Football federation where FIFA threatened to suspend the federation if the government interfered with the federation's elections. Mr. Kafashian was chosen as the head of Iran's Football federation; this was apparently not considered a favorable choice by the government. Conflict between the federation and the government resulted in interference from the world federation. This in turn threatened the attendance of Iranian athletes in the London 2012 Olympics.

The Ministry of Youth Affairs and Sports was established in June 2011. This was the first time a ministry undertook the decision of making sport related matters as a separate entity. With this new organization, the Iranian Olympic team was finally ready to head to London after experiencing a great deal of instability in various federations beforehand.

Iran had its most successful Olympic games ever at the 2012 London Olympics. 53 Iranian Athletes, both men and also women, were competing in diverse categories and won a total of 12 medals leading to the ranking of 17 amongst countries participating.

The medals were won in Athletics, Taekwondo, Weightlifting and Wrestling. The Iranian team was awarded 4 Gold medals, 1 in Weightlifting and 3 in Wrestling. 5 Silver medals were won, 1 in Athletics, 1 in Taekwondo, 2 in Weightlifting

and 1 in Wrestling. 3 Bronze were won, 1 in Weightlifting and 2 in Wrestling. Iran won its first ever gold medals in Greco-Roman Wrestling and first silver medal in Athletics. Ehsan Hadadi, the Iranian Discus thrower won the first medal ever in Athletics without having a trainer present. Hadadi claimed a silver medal in the men's discus with a throw of 68.18 meters. This was considered as a great achievement for Iran. Iran, with 53 Athletes and 12 medals, ranked 2nd in terms of number of Athletes to number of medals ratio.

Sports in Iran are a matter of national pride and the country's performance in the 2012 London Olympics was very impressive. Given the unique set of circumstances, such as a limited number of women competing and competing in a limited number of sports, Iranian athletes managed to perform very well and gain a high ranking.

Despite a run-up where Iran's National Olympic committee came under immense pressure due to a threatened ban from participating along with several federation heads being removed from their positions, Iran nevertheless managed to record an exceptional performance in its Olympic history.

Iran launches its first self-constructed oil tanker

Iran has completed construction of the first of four oil tankers to be sold to Venezuela's state oil company (PDVSA). The tanker entered Persian Gulf waters on the 24th of July.

The Aframax, capable of carrying 113,000 tons of oil (equivalent to 750,000 barrels), was built over the past two years by the Iranian shipbuilding company SADRA. The oil tanker will be delivered in late September. The other three tankers will be completed in coming months as part of the 2007 contract signed with Venezuela. The value of the Euro-denominated contract is a total of EUR 230 million. According to the Managing Director of SADRA, the construction of each tanker will cost approximately USD 52 million.

Iran's fleet of around 40 oil tankers, the biggest in the Middle East, is mostly made up of bigger supertankers purchased from foreign shipbuilders that are capable of carrying up to two million barrels of oil each. China is to supply two more to the fleet by next year. However, the EU and US sanctions have created obstacles for the OPEC producer to sell and transport its crude oil. The country's top commercial tanker operator, NITC (National Iranian Tanker Company) has delayed the expansion of its oil fleet as Western sanctions and a weak freight market hurt its ability to make a profit.

Iran the 15th largest steel producer

According to the World Steel Association, Iran's crude steel output totaled 7.36 million tons in the first quarter of 2012 and the country was ranked the 15th largest steel producer in the world and the second in the Middle East after Turkey. Iran produced 1.2 million tons of crude steel in June, 3.5% less than in the previous month. The world's total crude steel output in June fell by 0.1% at 128 million tons compared to the same month in 2011.

The Iranian Mine and Trade Minister stated that the country's steel output is projected to reach 55 million tons by 2025 and Iran will become one of the world's main steel exporters by 2016.

A report by the Association of Iranian Steel Producers indicates that Iran will attain self-sufficiency in the steel sector within the next three years. Despite global economic sanctions, the country's steel output increased by 5 million tons during the past two years reaching to 17 million tons. In addition, Iran produced over 5 million tons of crude steel during the first four month of 1391 which shows a 7.1% growth compared to the same period last year which was 4.68 million tons.

Iran Imports, Exports and Oil Revenue in Q1

Iran imported around \$12 billion worth of non-oil goods (including gas condensate and petrochemical products) and exported around \$9 billion during the first three months of this year, starting from March. Exports in the first three months of 1391 showed a 9.76 percent drop in weight and 16.94 percent fall in value compared to the figures covering the same period last year. Petrochemical products consisted of 34% of the value of the exports. In the same period this year, imports have increased by 13 percent in weight but dropped by 8.79 percent in value.

According to the Iranian Finance and Economic Ministry, Iran conducted economic transactions with 150 countries in the last calendar year. China, the UAE, and Iraq were the main destinations for the Iranian goods, while the UAE, China and South Korea were the main exporters to Iran last year. The value of trade between Iran and the Persian Gulf Arab states is currently around \$30 billion annually. UAE and Oman are the main trading partners of Iran in the region.

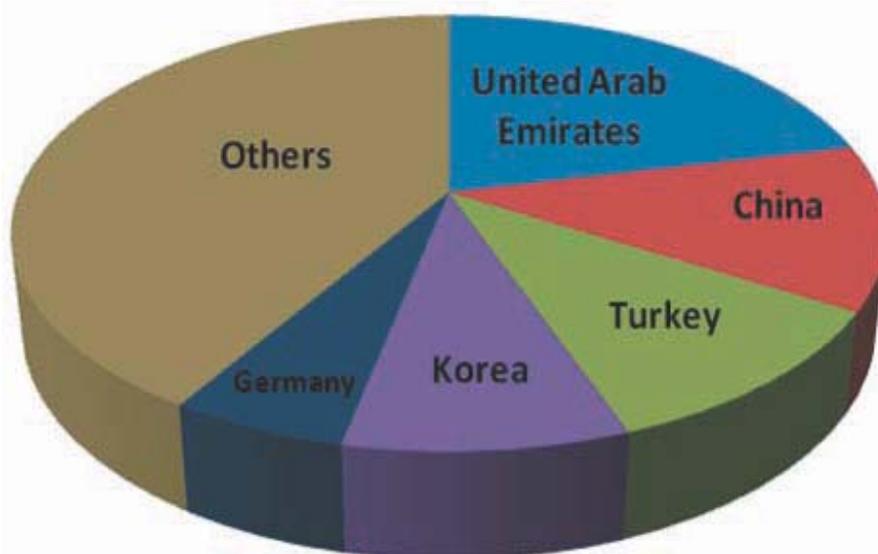
A TPOI (Trade Promotion Organization of Iran) report shows that the country's annual trade turnover is projected to reach \$160 billion by the end of the five-year development plan (March 2016). In addition, the value of annual imports and exports is estimated to reach \$77 billion and \$83 billion respectively by 2016.

Data from the annual statistical bulletin of OPEC (Organization of Petroleum Exporting Countries) showed that Iran exported crude and petroleum products valued at \$114.8 billion in 2011 compared

to \$72.2 billion of exports in the previous year. Iran's revenues increased by 59% even as the volume of the nation's shipments fell 8.5% due to international sanctions. Excluding petroleum products, Iran's

revenue from exports of crude oil in 2011 also increased around 59 percent compared with the previous year. Iran exported \$83 billion worth of crude oil in 2011, in comparison to \$52 billion in 2010.

Iran's Major Importing Partners in the first 3 months of 1391



Iran's Exports in the first three months of 1390-1391

Type of Product	First three months of 1391				First three months of 1390				% Change	
	Weight (000 Tons)	Share	Value (million\$)	Share	Weight (000 Tons)	Share	Value (million\$)	Share	Weight	Value
Gas Condensate	2,163	12.1	2,158	24.18	3,415	17.25	3,227	30.03	-36.68	-33.11
Petrochemical	3,350	19.31	2,304	25.82	5,992	30.27	4,006	27.29	-42.42	-42.48
Other	12,351	68.58	4,463	50	10,388	52.48	3,511	32.68	17.94	27.07
Total	17,864	100	8,925	100	19,795	100	10,744	100	-9.76	-16.94

A EUR 65 million loan to Iranian Mining Sector

Islamic Development Bank (IDB) will be granting a EUR 65 million loan in order to equip Khamroud coal mines in Zarand, Kerman province. According to the Ministry of Economic Affairs and Finance, the issuance of this letter of guarantee by the ministry means that the project has entered its administrative phase. Total funding requirements to equip these coal mines is around EUR 100 million, and the remaining EUR 35 million will

be financed through local partners. There are 30 million tons of coal coke in Khamroud mines; through development of this project, some 750 thousand tons of raw coal and 400 thousand tons of coal concentrate can be extracted from these mines over a four year period. A report by IMIDRO indicates that extraction of these reserves can ultimately continue for a 22 year period. The project itself will create 1000 direct and 5000 indirect jobs.

Iran has so far obtained \$2.2 billion in loans from the IDB and the country's major infrastructure projects have been funded partially through the financial assistance of this bank. IDB is a multilateral development financing institution located in Jeddah, Saudi Arabia.

Overview of Iranian Banking Sector in 1390

A report by the Central Bank of Iran indicates that in 1390 the amount of loans granted by banks was more than the amount of deposits that they attracted. In the first 9 months of 1390, the banking sector's loan to deposit ratio increased by 3.2%, growing from 97.6% in 1389 to 100.8% in 1390. The Central Bank stated that the main reason for this increase was excessive loans granted to the private sector by specialized banks. Only 1.1% of this increase is the share of commercial (government and non-government) banks.

The total value of deposits in the banking system was IRR 2,720 thousand billion in 1389 and IRR 3,180 thousand billion in 1390 which shows a 16.7% increase. The share of short-term deposits in government banks were more than non-government banks, whereas in long-term loans non-government banks had a higher share. Amongst long-term deposits, one year deposits in government banks has dropped from 17.1% in 1389 to 13.3 % in the first 9 months of 1390. Meanwhile, in non-government banks, the same figure has decreased from 14.2% in 1389 to 10.1% in the first 9 months of 1390.

The sticky deposit index which shows the period of time a term deposit is held in the banking system increased from 28.6 months in 1389 to 30.2 months in the first 9 months of 1390.

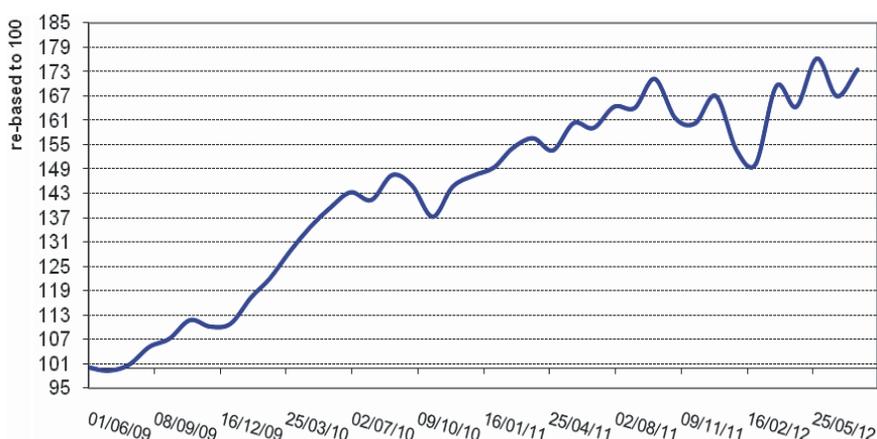
Loan to Deposit Ratio

Bank	Loan to Deposit Ratio		Change (%)
	1389	1390	
Commercial government Banks	87.9	84.2	-3.7
Specialized Banks	214.9	236.1	21.2
Non-Government Banks	78.2	81.2	3
Total Banking Sector	97.6	100.8	3.2
Banking sector excluding specialized banks	80.9	82	1.1

Investment Objective – The Turquoise Equity Investments seeks superior long-term capital growth by investing in the consumer and commodity potential of Iran, one of the most undervalued emerging markets in the world. Turquoise combines international experience with local expertise in investing in equities listed on the Tehran Stock Exchange (TSE) and other Iranian-based securities. The goal is to provide superior returns, with greater diversification and lower volatility.

Class A		NAV = 173.5
Vehicle Domicile British Virgin Islands	Management Fee 2.0% p.a	Currency Euro (€)
Launch Date 01 June 2009	Carried Interest 20% (High Water Mark Applies)	Minimum Investment €100,000

Class A Performance (Euro) - As at 31st July 2012



Period	Portfolio Return
Last Month	3.9 %
Last 3 Months	5.6 %
Last 6 Months	19.9 %
Last 12 Months	5.6 %
Since Inception (01 June 09)	73.5 %



**TURQUOISE
PARTNERS**

About Turquoise

Turquoise is a boutique investment firm based in Iran. Turquoise creates financial products and offers financial services to select clients and investors who are interested in the Iranian market. Having a qualified and diverse management team with a wealth of international expertise enables Turquoise to benefit from coupling a network of global expertise with an enviable reputation for local knowledge, professionalism and integrity.

Turquoise publishes this electronic newsletter, *Iran Investment Monthly*, with the aim of keeping its recipients updated on the latest macroeconomic developments in Iran, providing an in-depth analysis of the Tehran Stock Exchange as well as introducing new financial products and private equity opportunities to potential investors.

Iran Investment Monthly is distributed exclusively amongst Iran analysts and potential investors who have worked closely or have been in contact with Turquoise Partners. Subscription to this newsletter is by referral only or through an online request sent to: info@turquoisepartners.com

Disclaimer

This material is for information purposes only and does not constitute an offer to sell, nor a solicitation of an offer to buy any specific shares.

The analysis provided by this publication is based on information that we consider reliable and every effort is made to ensure that the facts we publish are correct. However, we do not represent that all facts and figures are complete and accurate; therefore, we can not be held legally responsible for errors, omissions and inaccuracy.

This publication does not provide individually tailored investment advice and may not match the financial circumstances of some of its recipients. The securities discussed in this publication may not be suitable for all investors. The value of an investment can go down as well as up. Past performance is no guarantee of future success.

Copyright Notice

No part of this newsletter may be reproduced or transmitted in any form or by any means electronic, mechanical, photocopies, recording or by any information storage or retrieval system without prior written consent of Turquoise Partners.